Non-Recourse Financing for a Single Tenant Warehouse

Transaction Summary

Date: April 2013

Property Description: A 39,000 sq. ft. warehouse with grade level loading.

Owner: The buyer is purchasing and renovating the vacant building for the purpose of leasing it to a tenant who is willing to sign a long term lease once the renovations are completed.

Tenant: The tenant is a well-recognized national building supply company with excellent financial strength. The company is privately owned and has **no credit rating**.

Lease Term: 15 years with two, 5 year lease options

Purchase Price: $3,000,000

Requested Loan Amount: $2,100,000

Financing Issues: There was one primary financing issue: The owner requested non-recourse financing from a life company lender. Very few life companies do non-recourse financing for loans less than $5 million. Eight life company lenders and one bank were contacted. Three quotes were received, of which only two were non-recourse.

Shown on the subsequent pages are two different loan quotes from both lenders.

WAREHOUSE LOAN QUOTE COMPARISON
LOAN QUOTE COMPARISON

April 2013

Lender Type:	Lender #1A	Lender #1B	Lender #2A	Lender #2B
Loan Amount:	$2,100,000	$2,100,000	$2,100,000	$2,100,000
Estimated Value:	$3,000,000	$3,000,000	$3,000,000	$3,000,000
Loan To Value:	70.0%	70.0%	75.0%	75.0%
Indicated Interest Rate	4.280%	4.480%	4.500%	4.875%
Interest Rate Calculation:	Actual/300	Actual/360	30/360	30/360
Underwriting Criteria				
Maximum LTV:	70.0%	70.0%	75.0%	75.0%
Minimum DSCR:	1.25	1.25	1.30	1.30
Loan Term:	7	10	12	15
Amortization Period:	25	25	19	22
Rate Lock When?	At Application	At Application	At Application	At Application
Rate Lock Fee:	Free/7 bps	Free/7 bps	none	none
How long?	60/90 days	60/90 days	no limit	no limit
Refundable?	no	n/a	n/a	n/a
Forward Rate Lock:	No	No	Yes - 12 Mo.	Yes - 12 Mo.
Monthly Loan Constant:	0.5434%	0.5547%	0.6533%	0.6182%
Total Loan Fees (Lender/Mtg Broker):	1.0%	1.0%	2.0%	2.0%
Application Deposit	$5,250	$5,250	1% + $5,000	1% + $5,000
Are costs capped?	no	no	no	no
To be used for:	appraisal + misc. reports	3rd party reports proc. fee + legal	3rd party reports site visit fee	3rd party reports site visit fee
Third Party Reports Required				
Appraisal	$0	$0	$4,500	$4,500
Level I Environmental Report	$2,000	$2,000	$2,000	$2,000
Property Condition	no	$0	$2,000	$2,000
ALTA Survey	no	no	no	no
Other Costs				
Processing Fee/Site Visit	$2,625	$2,625	$5,000	$5,000
Lender's Legal Cost Estimate	no	no	$8,000	$8,000
Escrow Impounds				
Property Taxes	no	no	yes	yes
Insurance	no	no	yes	yes
Tenant Impr & Leasing Comm Res.	no	no	no	no
Commitment Fee:	no	no	1%	1%
Assumable loan?	yes	yes	yes	yes
Prepayment Penalty				
Lock-Out Period	none	none	none	none
Method of Prepayment	5-5-4-4-3-2-1	5-5-5-4-4-4-3-2-1-1	Yield Maintenance	Yield Maintenance
Open Period	Last 18 years	Last 15 years	Last 90 days	Last 90 days
Recourse/Non-Recourse	non-recourse	non-recourse	non-recourse	non-recourse

WAREHOUSE LOAN QUOTE COMPARISON
ESTIMATED SOURCES AND USES STATEMENT

	Lender #1A	Lender #1B	Lender #2A	Lender #2B
SOURCES				
Loan Amount	2,100,000	2,100,000	2,100,000	2,100,000
Cash From Borrower	931,984	931,984	969,859	969,859
Total Sources	**$3,031,984**	**$3,031,984**	**$3,069,859**	**$3,069,859**
USES				
Cash To Borrower	0	0	0	0
Purchase Price	3,000,000	3,000,000	3,000,000	3,000,000
Prorated Property Taxes	0	0	0	0
Financing Charges				
Financing Fee	21,000	21,000	42,000	42,000
Appraisal & Review		0	4,500	4,500
Level 1 Environmental Report & Review	2,000	2,000	2,000	2,000
Property Condition Report	0	0	2,000	2,000
ALTA Survey	0	0	0	0
Lender Legal	0	0	8,000	8,000
Processing/Inspection Fee	2,625	2,625	5,000	5,000
Title Policy Insurance	4,687	4,687	4,687	4,687
Escrow	1,172	1,172	1,172	1,172
Miscellaneous Closing Costs	500	500	500	500
Total Financing Charges	31,984	31,984	69,859	69,859
Total Uses	**$3,031,984**	**$3,031,984**	**$3,069,859**	**$3,069,859**

Disclaimer: This Sources and Uses Statement is only a preliminary estimate. The financing fee is a function of the loan amount which has yet to be determined. Other financing charges shown above, the appraisal, the Level 1 Environmental report, etc. are based on usual and customary charges and should not be considered actual quotes.

WAREHOUSE LOAN QUOTE COMPARISON
MONTHLY CASH FLOW AFTER DEBT SERVICE

Square Feet: 39,000

	Lender #1A	Lender #1B	Lender #2A	Lender #2B
INCOME				
1. Rental Income	$227,056	$227,056	$227,056	$227,056
2. CAM Reimbursements	$0	$0	$0	$0
3. Miscellaneous Income	0	0	0	0
4. GROSS INCOME	227,056	227,056	227,056	227,056
5. Vacancy & Credit Loss	(11,353)	(11,353)	(11,353)	(11,353)
6. EFFECTIVE GROSS INCOME	**$215,703**	**$215,703**	**$215,703**	**$215,703**
CAM Expenses				
7. Property Management	0	0	0	0
8. Landscaping	0	0	0	0
9. Property Taxes	0	0	0	0
10. Utilities	0	0	0	0
11. Maintenance & Repair	0	0	0	0
12. Replacement Reserves	0	0	0	0
Landlord Expenses				
13. Administrative	0	0	0	0
14. Insurance	0	0	0	0
15. Maintenance	0	0	0	0
16. Utilities	0	0	0	0
17. LC & TI Reserves	3,794	3,794	3,794	3,794
18. TOTAL OPERATING EXPENSES	**$3,794**	**$3,794**	**$3,794**	**$3,794**
19. % Expense/Effective Gross Income	1.8%	1.8%	1.8%	1.8%
20. Expense Per Unit or Square Feet	$0.10	$0.10	n/a	n/a
21. CASH FLOW BEFORE DEBT SERVICE	**$211,909**	**$211,909**	**$211,909**	**$211,909**
22. Monthly Net Income	$17,659	$17,659	$17,659	$17,659
23. Loan Amount	$2,100,000	$2,100,000	$2,100,000	$2,100,000
27. Interest Rate	4.28%	4.48%	4.500%	4.875%
28. Amortization	25	25	19	22
29. Less: Mortgage Payment	$11,412	$11,649	$13,719	$12,983
30. CASH FLOW AFTER DEBT SERVICE	**$6,247**	**$6,010**	**$3,940**	**$4,676**

WAREHOUSE LOAN QUOTE COMPARISON
BEFORE & AFTER TAX RETURN ON EQUITY

	Lender #1A	Lender #1B	Lender #2A	Lender #2B
PROJECTED TAXABLE INCOME				
NET CASH FLOW BEFORE DEBT SERVICE	$211,909	$211,909	$211,909	$211,909
Annual Interest Expense	89,580	93,766	94,086	101,987
Cost Recovery (Depreciation)	61,536	61,536	61,536	61,536
TAXABLE INCOME	$60,793	$56,607	$56,287	$48,386
CASH FLOW BEFORE & AFTER TAXES				
Net Operating Income	$211,909	$211,909	$211,909	$211,909
Annual Debt Debt Service	136,942	139,784	164,624	155,797
CASH FLOW BEFORE TAXES	$74,967	$72,125	$47,285	$56,112
Tax Liability @ 25%	15,198	14,152	14,072	12,096
CASH FLOW AFTER TAXES	$59,769	$57,973	$33,213	$44,015
RETURN ON EQUITY				
BEFORE TAX	8.3%	8.0%	5.3%	6.2%
AFTER TAX	6.6%	6.4%	3.7%	4.9%

DEPRECIATION AND TAX ASSUMPTIONS	
Estimated Value	$3,000,000
Building Value as % of Total Value	80%
Depreciation Schedule	
Apartments	3.636%
Commercial Buildings	2.564%
Ordinary Income Tax Rate:	25%